



BOARD OF SUPERVISORS
AGENDA LETTER

Agenda Number:

Clerk of the Board of Supervisors
123 E. Anapamu Street, #202
Santa Barbara, CA 93101
(805) 568-2240

Department Name: Community Services
Department No.: 057
For Agenda Of: August 30, 2022
Placement: Administrative
Estimated Tme: N/A
Continued Item: No
If Yes, date from:
Vote Required: Majority

TO: Board of Supervisors
FROM: Department George Chapjian, Community Services Director
Director(s) (805) 568-2485
Contact Info: Dinah Lockhart, Housing and Community Development Division
(HCD/CSD) Deputy Director (805) 568-3523
Laurie Baker, HCD/CSD Grants & Program Mgr. (805) 568-3521

SUBJECT: County Inclusionary Housing Ordinance – 2022 Update and Annual Adjustment of Affordable Housing In-Lieu Fees and Inclusionary Housing Requirements

County Counsel Concurrence

As to form: Yes

Planning and Development:

As to form: Yes

Auditor-Controller Concurrence

As to form: Yes

Recommended Actions:

That the Board of Supervisors:

- A. Receive and file a 2022 Update and Annual Adjustment of Affordable Housing In-Lieu Fees and Inclusionary Housing Requirements; and
- B. Determine that the above-recommended actions are exempt from the California Environmental Quality Act (CEQA) pursuant to CEQA Guideline section 15061(b)(3), finding that the activities are covered by the general rule that CEQA applies only to projects which have the potential for causing a significant effect on the environment, and where it can be seen with certainty that there is no possibility that the activities in question may have a significant effect on the environment, the activities are not subject to CEQA.

Summary Text:

The County’s Inclusionary Housing Ordinance, Ordinance No. 4855, (IHO) directs that a report on the County’s inclusionary housing requirements with any necessary revisions and the annual in-lieu inclusionary housing fees with any needed adjustments be received and filed by the Board, which will be effective as of the date of the hearing on this item (the IHO does not require the Board to approve the adjustments to the 2022 inclusionary housing requirements or the 2022 in-lieu fees). The IHO was codified under County Code Chapter 46A. The IHO allows developers to satisfy the County’s inclusionary housing requirements by paying in-lieu fees instead of providing affordable housing units on-site. Projects located within the Cuyama Housing Market Area (HMA) are exempt from inclusionary housing requirements as provided in Section 46A-3 of the Inclusionary Housing Ordinance.

Due to increases in the median sales prices of single family residences and condominiums in each HMA between 2021 and 2022, two adjustments were made: 1) The in-lieu fee amount for each HMA was increased (Table 2), and 2) requirements to produce affordable housing or pay the in-lieu fee were waived for FY 2022-23 only in the Workforce categories for the Santa Maria and Lompoc HMA’s (Table 1) as the median home prices in those areas are affordable for that income category.

Background:

The IHO requires new residential projects with five or more units to construct a percentage of the units as affordable housing units. The IHO affords developers the option of satisfying the inclusionary housing requirements by paying fees in lieu of providing affordable units on-site. In-lieu fees are deposited in the County’s Housing Trust Fund and used to fund the development or rehabilitation of very low- and low-income housing, special needs housing, and housing for seniors and veterans, and to assist non-profit organizations and other governmental agencies to provide or preserve affordable housing in the County. The adjustments to the 2022 in-lieu fees are based on data from the most recent condominium sales activity in 2021, which the Community Services Department (CSD) obtained from the County Assessor’s Office. In-lieu fees are reviewed and updated annually by the County’s CSD as required by the County’s IHO.

Inclusionary Housing Requirements:

Section 46A-6(a) of the IHO provides for CSD to annually review inclusionary housing requirements (Attachment A). For any given year, inclusionary housing requirements to provide affordable housing or pay in-lieu fees for moderate and/or workforce household income categories may be waived entirely by the County when the median sales price of all housing units in each non-exempt Housing Market Area (HMA) over a twelve-month period is ‘affordable’ to moderate and/or workforce income categories, as applicable.

To determine affordability, the following factors are considered when calculating the monthly housing payment, including principal, interest, taxes, property insurance (PITI), for the median home sales price in each Housing Market Area (HMA) (Attachment B):

1. Thirty-year loan term with a fixed rate and five percent down payment;
2. Average annual percentage rate (APR), as reported by the Federal Home Loan Mortgage Corporation (Freddie Mac) over twenty-four weeks of Weekly Primary Mortgage Market Survey® (PMMS®) results for a thirty-year fixed rate mortgage term;
3. Closing costs based on the average points and/or fees, as reported by the Federal Home Loan Mortgage Corporation (Freddie Mac) over twenty-four weeks of Weekly Primary Mortgage Market Survey® (PMMS®) results for a thirty-year fixed rate mortgage term;
4. Annual property tax based on one and two-tenths percent of median home sales price; and
5. Property Insurance based on seven-tenths of one percent of median home sales price.

The overall median sales prices for condominiums in all 4 HMA’s increased in 2022 over 2021. As a result, adjustments were made to the Inclusionary Housing requirements and In-Lieu fees after review of median home sales that occurred in the calendar year of 2021.

Inclusionary Housing Requirements

The adjustments to the Inclusionary Housing Requirements were based on home sales price records for each HMA over a twelve-month period as recorded by the County Assessor. The results of the 2022 Annual Adjustment of the Inclusionary Housing Requirements are shown below in Table 1, which reflect the percentage of the units that must be constructed as affordable housing units in comparison to the total number of units resulting from new residential projects with five or more units:

TABLE 1 - Housing Requirements for the Inclusionary Housing Ordinance FY 2022-2023

| Housing Market Area (HMA) | Very Low | Low | Moderate | Workforce | Total Inclusionary Housing % |
|---------------------------|----------|------|----------|-----------|------------------------------|
| South Coast | 2.5% | 2.5% | 5% | 5% | 15% |
| Santa Ynez | 2.5% | 2.5% | 5% | 5% | 15% |
| Santa Maria | 2.5% | 2.5% | 5% | Waived | 10% |
| Lompoc | 2.5% | 2.5% | 5% | Waived | 10% |

TABLE 2 - In-Lieu Fees for the Inclusionary Housing Ordinance

| Housing Market Area (HMA) | 2021 Very Low & Low | 2022 Very Low & Low | 2021 Moderate & Workforce | 2022 Moderate and Workforce |
|---------------------------|------------------------|------------------------|------------------------------|--------------------------------|
| South Coast | \$183,600 | \$199,600 | \$685,800 | \$745,600 |
| Santa Ynez | \$151,800 | \$182,100 | \$448,100 | \$537,500 |
| Santa Maria | \$98,700 | \$109,600 | \$253,300 | \$281,400 |
| Lompoc | \$104,600 | \$120,800 | \$239,200 | \$276,300 |

In-Lieu Fees (see Table 2)

1. *Low and Very-Low Income Categories.* In-Lieu Fees for 2022 are: \$199,600 for the South Coast HMA (an increase of \$16,000 from 2021); \$109,600 for the Santa Maria HMA (an increase of \$10,900 from 2021); \$182,100 for the Santa Ynez HMA (an increase of \$30,300 from 2021) and \$120,800 for the Lompoc HMA (an increase of \$16,200 from 2021).

2. *Moderate and Workforce Income Categories.* In-Lieu Fees for 2022 are: \$745,600 for the South Coast HMA (an increase of \$59,800 from 2021); \$281,400 for the Santa Maria HMA (an increase of \$28,100 from 2021); \$537,500 for the Santa Ynez HMA (an increase of \$89,400 from 2021) and \$276,300 for the Lompoc HMA (an increase of \$37,100 from 2021). The Santa Maria and the Lompoc HMA’s do not require in-lieu fees for the Workforce income categories for the year 2022 since the median home prices in those areas are affordable for the Workforce income category.

Section 46A-6(b) of the IHO specifies that the in-lieu fees for the very low- and low-income categories be updated based on the percent change in the median sales price of condominiums in each HMA over a 12-month period. In addition, Section 46A-6(b) specifies the in-lieu fees for the moderate and workforce income categories are updated based on the estimated cost to build a housing unit, calculated as the median sale price of condominiums in an HMA over a 12-month period less 15%, which represents developer profit. HCD continues to work closely with the County Planning and Development Department to evaluate the effectiveness of the IHO and related policies.

The tables below show how recent sales affect the in-lieu fees.

- **Table 3** provides greater detail on how the percentage change in condominium sales prices between 2020 and 2021 impacts the calculation of in-lieu fees for ‘very low and low’ income units.
- **Table 4** provides greater detail on calculation of in-lieu fees for Moderate and Workforce units, which uses the 2021 median sales price of condominiums as the baseline, less 15%, which represents developer profit, as the incremental increase between 2021 and 2022 In-Lieu fees.
- **Table 5** provides a historical analysis of condominium sales by Housing Market Area.

TABLE 3 - In-Lieu Fees for Very Low and Low Units based on % change in median sales price of condominiums

| HMA | 2020 Median Sales Price of Condominiums | 2021 Median Sales Price of Condominiums | %Change | 2021 In-Lieu Fee | 2022 In-Lieu Fee | \$ Change |
|-------------|---|---|---------|------------------|------------------|-----------|
| South Coast | \$806,863 | \$877,200 | 8.72% | \$183,600 | \$199,600 | +\$16,000 |
| Santa Maria | \$298,000 | \$331,000 | 11.07% | \$98,700 | \$109,600 | +\$10,900 |
| Santa Ynez | \$527,188 | \$632,400 | 19.96% | \$151,800 | \$182,100 | +\$30,300 |
| Lompoc | \$281,424 | \$325,000 | 15.48% | \$104,600 | \$120,800 | +\$16,200 |

TABLE 4 - In-Lieu Fee Update for Moderate and Workforce Units based on % change in median sales price of condominiums

| HMA | 2021 Median Sales Price of Condominiums | 15% of Median Sales Price of Condominiums | 2022 In-Lieu Fee | 2021 In-Lieu Fee | \$ Change |
|-------------|---|---|------------------|------------------|-----------|
| South Coast | \$877,200 | \$131,580 | \$745,600 | \$685,800 | +\$59,800 |
| Santa Maria | \$331,000 | \$49,650 | \$281,400 | \$253,300 | +\$28,100 |
| Santa Ynez | \$632,400 | \$94,860 | \$537,500 | \$448,100 | +\$89,400 |
| Lompoc | \$325,000 | \$48,750 | \$276,300 | \$239,200 | +\$37,100 |

TABLE 5 - Median Condominium Sales Price by HMA, 2011-2021. Sales price data is released in July of the following year.

| Year | HMA | | | |
|------|-------------|-------------|------------|-----------|
| | South Coast | Santa Maria | Santa Ynez | Lompoc |
| 2021 | \$877,200 | \$331,000 | \$632,400 | \$325,000 |
| 2020 | \$806,863 | \$298,000 | \$527,188 | \$281,424 |
| 2019 | \$774,523 | \$291,750 | \$507,766 | \$267,750 |
| 2018 | \$763,990 | \$279,000 | \$490,092 | \$257,295 |
| 2017 | \$665,951 | \$259,590 | \$465,000 | \$249,000 |
| 2016 | \$661,980 | \$240,310 | \$400,000 | \$208,000 |
| 2015 | \$675,141 | \$218,278 | \$359,281 | \$186,000 |
| 2014 | \$573,738 | \$204,200 | \$383,591 | \$188,696 |
| 2013 | \$487,704 | \$187,500 | \$310,000 | \$120,544 |
| 2012 | \$415,000 | \$139,740 | \$241,867 | \$123,050 |
| 2011 | \$474,351 | \$134,000 | \$255,000 | \$180,000 |

Uses of In-Lieu Fees for the Production of New Housing

Section 46A-6(b) of the IHO provides for CSD to annually report to the Board on the status of in-lieu inclusionary housing fees paid pursuant to Santa Barbara County Code Chapter 46 and affordable housing and special needs housing activities undertaken with the In-Lieu Inclusionary Housing Fees.

In-lieu fees balances as of June 30, 2022 are shown in the table below:

| HMA | BALANCE |
|--------------|--------------------|
| South Coast | \$10,469 |
| Santa Maria | \$254,796 |
| Lompoc | \$46,321 |
| Santa Ynez | \$316,794 |
| Unrestricted | \$465,452 |
| TOTAL | \$1,093,832 |

The projects below are recent housing projects that were partially funded with in-lieu fees.

- Residences at Depot Street, funded in 2018, was constructed in two phases; the first building was fully occupied in July 2020, and the second building is currently being leased up.
- Sierra Madre Cottages, funded in 2019, is expected to be completed and leased up this fall.
- Sawyer Avenue Homes, funded in 2017, was completed and units sold to qualifying buyers in 2019. The homes provided homeownership opportunities for 14 people, including 8 children.

| Project | Population | Developer | HOME Funds | In-Lieu Funds | Total Dev. Costs |
|--|--|---|--|----------------------|-------------------------|
| Residences at Depot Street, Santa Maria | 78 units for formerly homeless persons and 2 managers' units | County Housing Authority | \$1,994,459 (includes \$186,342 in Santa Maria HOME funds) | \$1,178,978 | \$37 million |
| Sierra Madre Cottages, Santa Maria | 39 units for low-income seniors and 1 manager's unit | Peoples' Self-Help Housing Corp. | \$1,114,988 (includes \$349,107 in Santa Maria HOME funds) | \$285,012 | \$23 million |
| Sawyer Ave. Homes – Homeownership units, Carpinteria | 3 homeownership units for very-low income families | Habitat for Humanity of Southern Santa Barbara County | \$0 | \$300,000 | \$1.8 million |
| West Cox Apartments | 29 units of permanent supportive housing for formerly homeless persons, and one manager's unit | County Housing Authority | \$0 | \$450,000 | \$11.5 million |

Impacts:

Budgeted: Yes

Any change of the in-lieu fees or the annual adjustment of the inclusionary housing requirements will impact the amount which will be collected by the County and allocated to future affordable housing projects.

Special Instructions:

Return a copy of the Minute Order by email to Andrew Kish, akish@countyofsb.org

Attachments:

- Attachment A – Inclusionary Housing Ordinance No. 4855
- Attachment B – Inclusionary Requirement Calculations for FY 2022

Authored By:

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CC:

Lisa Plowman, Director, Planning and Development